

VZCZCXRO1211
RR RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHSK #1212/01 3280611
ZNY CCCCC ZZH
R 240615Z NOV 06 ZDK
FM AMEMBASSY MINSK
TO RUEHC/SECSTATE WASHDC 5348
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHVEN/USMISSION USOSCE 1343
RUEHBS/USEU BRUSSELS
RHMFISS/HQ USEUCOM VAIHINGEN GE
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK

C O N F I D E N T I A L SECTION 01 OF 02 MINSK 001212

SIPDIS

SIPDIS

E.O. 12958: DECL: 11/21/2016

TAGS: [ECON](#) [PGOV](#) [BO](#)

SUBJECT: BELARUSIAN ECONOMIC FUTURE IN DOUBT

REF: MINSK 1184

MINSK 00001212 001.2 OF 002

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

¶1. (C) Belarus' current trend of robust GDP growth faces numerous challenges. The so-called economic miracle rests largely on Russian subsidies, with the government failing to harness the windfall to prepare for its seemingly inevitable end. Russia's preparations to join the WTO threaten to hasten higher energy prices and to complicate Belarus' privileged access to the Russian market. Direct foreign investment lags behind that in Belarus' neighbors and often comes in the form of Russian business seeking monopolies. While elements of the GOB may grasp the need for reform, past complacency suggests the Belarusian economy faces trouble ahead. End summary.

¶2. (SBU) On November 17, Ambassador hosted a breakfast for prominent Belarusian economists and analysts to discuss the current economic situation in Belarus. Invitees included Marina Bakanova, an economist with the World Bank in Minsk; Valeriy Karbalevich and Yaroslav Romanchuk, senior expert and chairman, respectively, of the Strategy think tank; Vladimir Novik, Deputy Chairman of Belarusbank; Andrey Vardomatskiy, head of Novak opinion research center; and Sergey Zhbanov, Deputy Editor-in-Chief of the independent weekly newspaper "BelGazeta."

Russian Blank Cheques Boost Belarusian Economy

¶3. (C) Romanchuk stated the economy was growing, although at a more modest rate than officially reported. He termed Lukasenko a wizard at turning promises to Russia into money. By his calculations, Russia had pumped the equivalent of 13-15% of Belarus' GDP into the economy. He believed this was historically unprecedented, with the closest comparison being Spain's receipt of the equivalent of six percent of its GDP upon joining the EU. Give the subsidies from Russia, he said it would take "a lot of brain power for the authorities to screw up" the economy. Vardomatskiy and Karbalevich commented on the huge increase in consumption, with Vardomatskiy adding that his surveys suggested the majority was satisfied with the economy.

Fat Years Not Used to Prepare for Thin

¶4. (C) Zhbanov feared the subsidy-fueled boom had been wasted

in the consumption boom. Growth over the last three years could have been used to create a stabilization fund. Bakanova described the flight of youth from Belarus to find employment in Russia. Belarus' aging population, combined with the emigration of the younger generation, could mean a shortage of labor. She also cautioned that the GOB was likely to intensify inefficient efforts to produce national industrial champions. Romanchuk explained investors also saw economic risks for Belarus, as witnessed by the GOB's difficulties in selling bonds to foreigners.

Russian WTO Accession Hurts Belarus, But Not Yet Lukashenko

15. (C) Regardless of whe. Russia enters the WTO, its agreement with the USG greatly complicates life for Belarusian manufacturers. According to Zhbanov, the GOR was already beginning to play by the WTO's rules, using terms such as dumping and infringing merchandise in its disputes with Belarus. Bakanova warned thap if Belarus loses its privileged access to tha Russian market, it would be "the end of the Belarusian miracle." Romanchuk proposed that the upcoming inclusion in WTO gives the GOR the perfect cover for raising energy prices for Belarus while claiming the move is not about the bilateral relationship.

16. (C) Karbalevich said typically major economic changes in Russia impacted Belarus two or three years later, at least giving Belarus time to adjust. Vardomatskiy agreed, adding that Lukashenko could successfuLly present himself as defending Belarus from economic events afflicting Russia, much as he did after Russia's default in 1998, when his popularity ratings increased in the short term.

Investment from Russia and Elsewhere

MINSK 00001212 002.2 OF 002

17. (C) Vardomatskiy noted Belarusian business owners recognized their own weaknesses in comparison to potential Russian competitors and saw Lukashenko as a guarantee against Russian business. Bakanova added that there are a significant number of barriers against Russian imports. Zhbanov countered that Russian capitalists with good connections in Moscow had also paid good money to profit from rent-seeking opportunities in Belarus.

18. (C) Vardomatskiy described how many western companies interested hn invest)ng in Belarus approached his firm for market research. Almost all of these contacts were ten years ago or more, however. Since Lukashenko consolidated power many western companies had decreased their presence in Minsk, moving top managers to Moscow. Romanchuk contrasted the low foreign investment in Belarus with that in Poland and the Baltics.

Banking Sector Still in Infant Stage

19. (C) Novik told Ambassador assets in the Belarusian banking system totaled just USD 10 billion. He predicted the undercapitalized banking sector in Belarus meant foreign capital would eventually fill the void, mentioning Chinese and Iranian banks as possibilities if the West steered clear of Belarus. Romanchuk said even Russian banks were wary of Belarus, with only three maintaining a token presence in order to intervene when the Belarusian economy faced a crisis. He suggested Belarus was setting itself up for a loans-for-shares scenario where R5ssian business would provide an infusion of money during a time of cr)sis in return for controlling stakes in Belar5sian assets.

Political Consequences of Econo-ic Change

¶10. (C) Korbalevich stated Belarus was changing from a Soviet society to a consumer society. Vardomatskiy seconded this, adding that the population had formed an expectation that the economy would continue to grow. Belarusians would most likely respond to a downturn by leaving state enterprises to seek out the limited opportunities in the private sector, which would radically contradict the official ideology of equality and redistribution, with potentially huge social consequences, he continued. According to Romanchuk, the nomenklatura created by Lukashenko would jump ship if they detected Lukashenko's days were numbered due to a dire economic situation.

Comment: Is There Time Left for a Change of Course?

-----%-----

¶11. (C) Recent broadcasts on the government mouthpiece Belarusian Television favorably described foreign investment and explained that wages should be linked to productivity, giving the impression the GOB may, in the words of Romanchuk, be trying to "alter the freeloading mood and habits resulting from previous policies." Adjustments might be too little and too late if Russia goes forward with significant hikes in energy prices beginning in 2007 (reftel). If Lukashenko manages once again to fend off substantial Russian price increases, economic impetus for reforms will suffer, with much of the Belarusian population and elite remaining complacent and oblivious to the need to invest in preparation for the end of Russian generosity.
Stewart